

## Message Text

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PAGE 01 BONN 01442 01 OF 03 271903Z

42

ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 SAJ-01

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R 271848Z JAN 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6002

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

CINC USAFE RAMSTEIN

CINC USAREUR HEIDELBERG

CINC EUR VAIHINGEN

C O N F I D E N T I A L SECTION 01 OF 03 BONN 01442

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: FRG 1975 SPENDING SURPRISINGLY FAR BELOW

BUDGETED AMOUNTS: 1976 EXPANSIONARY POLICY OPTION

ENHANCED.

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PAGE 02 BONN 01442 01 OF 03 271903Z

REF: BONN 1287

SUMMARY: THE FRG DEFICIT IS DM 8 BILLION LESS IN 1975 THAN WAS STIPULATED IN THE BUDGET FORECAST DATA PRESENTED TO THE BUNDESTAG ONLY 2-3 MONTHS BEFORE THE END OF THE YEAR, AND DM 9.3 BILLION MORE THAN REQUIRED WAS BORROWED. GREATER REVENUES AND LESSER EXPENDITURES THAN ANTICIPATED UNDERLIE THIS SITUATION, WHICH THE AUTHORITIES MAINTAIN WAS NOT THE RESULT OF SOME SUBTLE STRATEGY. WHETHER OR NOT THIS IS THE CASE, IT MAKES FURTHER EXPANSION IN 1976 A MORE FEASIBLE POLICY OPTION SHOULD ECONOMIC GROWTH STALL. HOWEVER, THE SURPRISINGLY LARGE MAGNITUDE OF THE CASH SURPLUS COULD SUBJECT THE FINANCE MINISTRY TO CRITICISM FOR SUCH POOR FORESIGHT AND DEFINITELY KILL THE PLANNED TVA INCREASE. END SUMMARY.

1. ACCORDING TO PRELIMINARY CALCULATIONS OF THE FINANCE MINISTRY, DEFICIT SPENDING LAST YEAR AMOUNTED TO SOME DM 30 BILLION "ONLY," RATHER THAN THE BUDGETED DM 38 BILLION. FEDERAL EXPENDITURES IN 1975 FELL SHORT OF BUDGETED AMOUNTS BY DM 5.2 BILLION, WHEREAS REVENUES FROM TAXES AND ADMINISTRATIVE FEES LAST YEAR TURNED OUT TO BE SOME DM 2.6 BILLION HIGHER THAN EXPECTED. MOREOVER, SENIORITY RECEIPTS REPORTEDLY WERE DM 0.2 BILLION HIGHER THAN BUDGETED. THOUGH SPENDING LESS AND COLLECTING MORE REVENUES, THE GOVERNMENT LAST YEAR BORROWED EVEN MORE THAN THE DM 38 BILLION SHOWN IN THE APPROVED 1975 BUDGET AND, THEREFORE, ENTERED THE NEW YEAR WITH CASH RESERVES OF DM 9.3 BILLION.

2. ACCORDING TO FINANCE MINISTER APEL, THESE DEVELOPMENTS DISPROVE (OPPOSITION) CHARGES OF FINANCIAL CHAOS AND FACILITATE FINANCING OF THE ANTICIPATED 1976 FRG DEFICIT. AT THE SAME TIME, HOWEVER, THE MINISTER WARNED AGAINST UNDERESTIMATING EXISTING PROBLEMS. THERE IS NO LEEWAY FOR STEPPING UP EXPENDITURES IN 1976, HE STRESSED, AND EMPHASIZED CONTINUED NEED FOR TAX INCREASES (TVA, TOBACCO, ALCOHOL) AS OF 1977. IN THIS CONTEXT, APEL REPORTEDLY CHARACTERIZED THE 5 PERCENT REAL GNP GROWTH ASSUMPTION UNDERLYING THE REVENUE ESTIMATES CONTAINED IN CONFIDENTIAL

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PAGE 03 BONN 01442 01 OF 03 271903Z

THE GOVERNMENT'S 1976 DRAFT BUDGET AS VERY AMBITIOUS. HE ALSO POINTED TO UNAVOIDABLE ADDITIONAL BURDENS NOT KNOWN AT THE TIME THE DRAFT BUDGET WAS PREPARED. SPECIFICALLY HE MENTIONED OUTLAYS FOR THE EC (DM 400 MILLION) AND FOR A NEWLY-CONTEMPLATED DM 300 MILLION JOB CREATION AND VOCATIONAL TRAINING PROGRAM FOR YOUTH (SEE REFTEL), AS WELL AS REVENUE LOSSES (MORE PRECISELY DEFERRED TAX RECEIPTS) OF AT LEAST DM 300 MILLION IN 1976

RESULTING FROM A BILL DESIGNED TO INTRODUCE A LOSS CARRY-BACK FOR TAX RELIEF (SEE REFTEL).

3. THE ABOVE-MENTIONED ADDITIONAL BURDENS IN 1976 NOTWITHSTANDING, APEL PUBLICLY EXPRESSED HOPES TO GET BY THIS YEAR ON DEFICIT FINANCING ON THE ORDER OF DM 38 BILLION, AS PROPOSED IN THE 1976 DRAFT BUDGET. WELL OVER ONE-FOURTH OF THIS AMOUNT IS ALREADY AVAILABLE IN THE FORM OF CASH RESERVES, NOW THAT THE DM 9.3 BILLION YEAR-END CASH RESERVES MENTIONED ABOVE WERE SUPPLEMENTED BY THE RECEIPTS OF A DM 660 MILLION GOVERNMENT BOND ISSUE. THE REMAINING BORROWING REQUIREMENTS ARE TO BE SATISFIED PRIMARILY DURING THE FIRST HALF OF THE YEAR IN ORDER TO RELIEVE THE CAPITAL MARKET DURING THE SECOND HALF, WHEN

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PAGE 01 BONN 01442 02 OF 03 271906Z

45

ACTION EUR-12

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AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 SAJ-01

/092 W

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R 271848Z JAN 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6003

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH  
AMCONSUL STUTTGART  
USMISSION USBERLIN  
CINC USAFE RAMSTEIN  
CINC USAREUR HEIDELBERG  
CINC EUR VAHINGEN

C O N F I D E N T I A L SECTION 02 OF 03 BONN 01442

PRIVATE SECTOR BORROWING IS EXPECTED TO PICK UP IN  
RESPONSE TO THE ANTICIPATED REVIVAL OF ECONOMIC ACTIVITY.  
GIVEN THE CURRENT RELATIVELY FAVORABLE CAPITAL MARKET  
SITUATION IN THE FRG, THE GOVERNMENT SEEMINGLY DOES  
NOT INTEND TO TAP FOREIGN MARKETS AT THIS POINT, BUT  
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PAGE 02 BONN 01442 02 OF 03 271906Z

APEL DID NOT RULE OUT COMPLETELY RECOURSE TO SUCH MARKETS  
AT SOME FUTURE DATE.

4. COMMENT.

A. IT SEEMS INCREDIBLE THAT THE ESTIMATES OF ONLY  
LAST OCTOBER SHOULD BE OFF THE MARK BY SO GREAT A MARGIN.  
AN DM 8 BILLION OVER-ESTIMATE ON THE BORROWING REQUIRE-  
MENTS WITH ONLY A BRIEF FORECASTING HORIZON OF 3 MONTHS  
-- AND THIS AFTER MUCH HOOPLA AT THE TIME ABOUT THE  
PARSIMONIOUS BUDGETING THE ESTIMATE INVOLVED -- MAKES  
ONE SUSPICION THAT THERE IS MORE AFOOT THAN MEETS THE  
EYE.

B. WHAT ARE THE POLICY ADVANTAGES, THEN, OF THIS  
CASH SURPLUS SITUATION? IS IT THE PRODUCT OF SOME  
MACHIAVELLIAN MANIPULATION OR IS IT AN HONEST ERROR? AN  
ASSISTANT-SECRETARY-LEVEL OFFICIAL (LAHNSTEIN) IN THE  
FINANCE MINISTRY DENIED TO US THAT IT WAS THE RESULT OF  
A SUBTLE STRATEGY. IN FACT, HE SAID THAT IF HE HAD KNOWN  
IN DECEMBER THAT IT WOULD BE SO HIGH, HE WOULD HAVE  
ASKED FOR A DM 1 BILLION PROGRAM AIMED AT THE UNEMPLOY-  
MENT PROBLEM RATHER THAN THE DM 300 MILLION YOUTH  
ORIENTED PROPOSAL NOW IN THE WORKS AND MENTIONED EARLIER.  
RATHER, HE SAID, THE UNEXPECTED SURPLUS WAS THE RESULT  
OF A COMBINATION OF FACTORS. ON THE REVENUE SIDE,  
THE LOCAL AUTHORITIES ADVANCED COLLECTION OF ADVANCE TAX  
PAYMENTS, TVA RECEIPTS WERE UP DM 900 MILLION BEYOND WHAT  
WAS ANTICIPATED DUE TO A "MODIFIED GROWTH STRUCTURE"  
(I.E., REDUCED EXPORTS MEANT LOWER TVA REBATES) BUT NOT  
DUE TO HIGHER THAN FORECAST GNP GROWTH. THE "MODIFIED  
ECONOMIC PROFILE" MEANT 40,000 LESS UNEMPLOYED AND

THEREFORE LOWER DISBURSEMENTS FOR UNEMPLOYMENT BENEFITS.  
ALSO, THE OTHER MINISTRIES UNDULY BLOATED THEIR 1975  
SUPPLEMENTAL BUDGET REQUESTS TO BUILD UP A HIGHER BASE  
TO GIVE THE ILLUSION OF SMALLER BUDGETARY GROWTH IN 1976  
THAN IS REALLY THE CASE. AS WELL, LOWER INTEREST RATES  
ON FEDERAL BORROWINGS LOWERED FINANCING COSTS ON THE  
PUBLIC DEBT BY SOME DM 1 BILLION.

C. LAHNSTEIN ASSERTED THAT THE ADVANTAGE IN THIS  
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PAGE 03 BONN 01442 02 OF 03 271906Z

CASH SURPLUS IS PSYCHOLOGICAL RATHER THAN JURIDICAL .  
THE MONEY IS THERE, BUT IT REALLY CANNOT BE USED UNLESS  
THE BUNDESTAG AGREES TO IT. HE SAID THAT IN THE EVENT  
THAT THE ECONOMIC GROWTH PATH IS LOWER THAN EXPECTED, AND  
A STIMULATIVE EXPANSION OF EXPENDITURES IS REQUIRED, IT  
WOULD BE AN EASIER PROPOSAL TO SELL GIVEN THE "SAVINGS"  
OF DM 8-10 BILLION THIS CASH SURPLUS DEVELOPMENT  
REPRESENTS -- THE PRESENTATIONAL PROBLEM TO THE  
CONSERVATIVES WOULD BE LESSENER. AS TO THE BORROWING  
AUTHORITY, WHILE IT IS TRUE THAT THE PRESENTLY SUB-  
MITTED (BUT AS YET UNAPPROVED) LEGISLATION CALLS FOR  
1976 BORROWINGS OF DM 38 BILLION, THE GOVERNMENT WOULD  
BE HARD PUT TO CONTINUE TO REQUEST THIS AMOUNT. IN FACT,  
MINISTER APEL HAS JUST INDICATED THAT HE NOW ANTICIPATES  
TAKING RECOURSE TO BORROWINGS OF ONLY DM 28 BILLION IN  
1976 (ALTHOUGH THE DEFICIT REMAINS UNCHANGED AT SOME  
DM 38 BILLION). BUT SHOULD SUBSEQUENT INCREASES BE

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PAGE 01 BONN 01442 03 OF 03 271907Z

42  
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CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 SAJ-01

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R 271848Z JAN 76  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 6004  
INFO AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL BREMEN  
AMCONSUL DUSSELDORF  
AMCONSUL FRANKFURT  
AMCONSUL HAMBURG  
AMCONSUL MUNICH  
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C O N F I D E N T I A L SECTION 03 OF 03 BONN 01442

REQUIRED, IT WOULD NOT REPRESENT SUCH A BIG BURDEN  
POLITICALLY OR FINANCIALLY.

D. THE 1976 BUDGET BILL IS STILL IN COMMITTEE AND  
WILL REMAIN THERE AT LEAST UNTIL APRIL. ANY ADDITIONAL  
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PAGE 02 BONN 01442 03 OF 03 271907Z

EXPENDITURE PROGRAMS BEYOND THE PRESENTLY BUDGETED DM  
168 BILLION COULD EASILY BE TACKED ON BEFORE THAT TIME,  
SUCH AS WILL BE THE CASE FOR THE DM 300 MILLION AIMED  
AT YOUTH UNEMPLOYMENT AND THE DM 400 MILLION EC OUTLAY  
MENTIONED IN PARAGRAPH 2 ABOVE. ALSO, THERE ARE SOME  
LIMITED AMOUNTS (PERHAPS DM 1-2 BILLION) THAT ARE  
TRANSFERRABLE FROM 1975 AUTHORIZED BUT UNSPENT FUNDS  
TO 1976 FOR GIVEN PROGRAMS, BUT THERE ARE CERTAIN COMPLI-  
CATED LIMITATIONS ON THE USE OF THIS DEVICE. IN SHORT,  
PREPLANNED OR NOT, THERE EXISTS THE FLEXIBILITY TO MOVE  
TO A MORE EXPANSIONARY POLICY IF THE UNFOLDING  
CONDITIONS SEEM TO DEMAND IT. THE MECHANISM AND WHERE-  
WITHALL ARE THERE TO PUMP ANOTHER DM 8-10 BILLION INTO  
THE ECONOMY SHOULD THE GOVERNMENT DECIDE TO USE IT.

WHILE THE NATIONAL ELECTION IS ONLY EIGHT MONTHS AWAY,  
THE CURRENT ECONOMIC INDICATORS ARE SUFFICIENTLY  
POSITIVE AS TO PROBABLY CAUSE THE FRG DECISION MAKERS  
TO SIT TIGHT A WHILE LONGER ON ANY NEW ECONOMIC POLICY  
DEPARTURES.

E. WHAT IS FURTHER PLACED IN JEOPARDY, THOUGH,  
IS THE GOVERNMENT'S PROPOSAL TO RAISE THE TVA BY 2  
PERCENTAGE POINTS IN 1977. PRESENTED TO THE BUNDESTAG  
ON JANUARY 25 BY MINISTER APEL, THIS BILL SEEMS EVEN  
MORE SO THAN BEFORE TO BE A STILLBORN IDEA IF THE  
DEFICIT BOGEY DOES INDEED RECEDE AS NOW ENVISAGED  
THEREBY GIVING THE OPPOSITION-CONTROLLED BUNDESRAT EVEN  
MORE JUSTIFICATION IN ITS ANNOUNCED INTENTION TO BLOCK  
THE LEGISLATION. APEL'S IMAGE, FURTHERMORE, MAY HAVE  
BEEN TARNISHED BY WHAT SUPERFICIALLY APPEARS TO HAVE  
BEEN FAR LESS THAN PRECISE FISCAL FORESIGHT, ALTHOUGH  
HE IS PRESENTING HIMSELF AS AN EFFECTIVE ECONOMIZER.  
HILLENBRAND

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT BUDGET, BUDGET DEFICITS, DEFICIT FINANCING, GOVERNMENT EXPENDITURES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 27 JAN 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976BONN01442  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D760031-0221  
**From:** BONN  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
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**Line Count:** 350  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 7  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 76 BONN 1287  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 31 MAR 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <31 MAR 2004 by KelleyW0>; APPROVED <31 MAR 2004 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FRG 1975 SPENDING SURPRISINGLY FAR BELOW BUDGETED AMOUNTS: 1976 EXPANSIONARY POLICY OPTION  
**TAGS:** EFIN, GE  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006